

Message Text

LIMITED OFFICIAL USE

PAGE 01 TEGUCI 00398 252109Z
ACTION EB-08

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01
/097 W

-----252223Z 042070 /62

R 252003Z JAN 77
FM AMEMBASSY TEGUCIGALPA
TO SECSTATE WASHDC 5583

LIMITED OFFICIAL USE TEGUCIGALPA 0398

E.O. 11652: N/A
TAGS: EPET, EINV, HO
SUBJECT: TEXACO REFINERY LOSSES MOUNT AS COST-PRICE SQUEEZE CONTINUES

REF: (A) MACDONALD-STAHLMAN MEMCON, 30 SEPT 76,
(B) 76 TEGUCIGALPA 3456, (C) 76 STATE 100062

SUMMARY: THE GOVERNMENT OF HONDURAS (GOH) AGAIN TURNED DOWN A REQUEST BY TEXACO (REFINERIA TEXACO DE HONDURAS) FOR INCREASES IN PRICES AT WHICH IT SELLS PETROLEUM PRODUCTS PROCESSED AT ITS HONDURAS REFINERY. SURING A CALL ON THE EMBASSY A TEXACO OFFICER DESCRIBED SERIOUS FINANCIAL PROBLEMS ENCOUNTERED BY THE COMPANY DUE TO CONTINUING GOH RESISTANCE TO SETTING PRODUCT PRICES HIGH ENOUGH TO COVER CURRENT COSTS, RETIRE DEBT AND RETURN AN ACCEPTABLE PROFIT. WITH DEBT AT OVER \$30 MILLION AND LOSSES RUNNING AT \$2 TO \$3 MILLION A YEAR, TEXACO IS CONSIDERING OTHER STEPS IT CAN TAKE TO SECURE FROM GOH THE COOPERATION REQUIRED TO CONTINUE OPERATING IN HONDURAS. THE DEPARTMENT'S ADVICE IS REQUESTED ON POSSIBLE CREEPING EXPROPRIATION ASPECT OF GOH TREATMENT OF THIS OPEC-INSURED INVESTMENT. END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TEGUCI 00398 252109Z

1. IN A VISIT TO THE EMBASSY, WILLIAM WALLACE MACDONALD, TEXACO'S SENIOR OFFICER FOR REFINERY AND SALES OPERATIONS IN HONDURAS, OUTLINED HIS COMPANY'S DETERIORATING FINANCIAL CONDITION RESULTING FROM A SQUEEZE BETWEEN CRUDE PETROLEUM PRICE INCREASES AND GOH-FIXED PRICES ON INTERNAL SALES OF THEIR REFINERY PRODUCTS. HE GAVE THE FOLLOWING ACCOUNT OF THE SITUATION. TEXACO'S FEBRUARY 1976 REQUEST FOR PRICE INCREASES WAS

BASED ON CRUDE PRICE DATA AS OF LATE 1975. AFTER LONG AND SOMETIMES HOSTILE NEGOTIATIONS WITH MINISTERS OF FINANCE AND ECONOMY AND PRESIDENT OF CENTRAL BANK, MODERATE PRICE INCREASES WERE GRANTED EFFECTIVE JUNE 1976. PRICE AND CRUDE AVAILABILITY DATA FROM VENEZUELA (WHICH SELDOM IS RELIABLE) PROVED FAULTY, AND VENEZUELA ADJUSTS PRICES QUARTERLY. AS RESULTS, CRUDE IMPORT COSTS ARE HIGHER THAN EXPECTED AND TEXACO'S LOSSES CONTINUED AT RATE OF \$2 TO \$3 MILLION A YEAR, EVEN WITH JUNE 1976 INCREASES GOH GRANTED. THE NEXT REQUEST FOR PRODUCT HIKE SUBMITTED TO GOH AUGUST 1976 WAS REJECTED FOR OSTENSIBLE REASON THAT IN ABSENCE OPEC ACTION TO HIKE CRUDE PRICE, A PRODUCT PRICE INCREASE IS NOT JUSTIFIED. ADMITTEDLY, TEXACO REACHED AN UNDERSTANDING WITH GOH, AS A CONDITION FOR JUNE 1976 INTERNAL PRICE INCREASES, THAT INCREASES WOULD IN FUTURE BE CONTINGENT OF OPEC SUPPLIER PRICE INCREASES. GOH INTERPRETS THIS AS REQUIRING OPEC-DECREED PRICE HIKE, WHILE TEXACO CLAIMS IT INCLUDES UPWARD PRICE ADJUSTMENTS BY A MEMBER AS WAS CASE WITH VENEZUELAN CRUDE IN 1976. THE GOH REQUIRES, IN EFFECT, THAT TEXACO SECURE ITS CRUDE FROM VENEZUELA IN ORDER TO SECURE DEVELOPMENT CREDITS FROM THAT COUNTRY.

2. MACDONALD STATED GOH RESISTANCE TO INTERNAL PRICE INCREASES AND OCCASIONAL TURN-DOWNS OVER THE PAST FEW YEARS HAVE RESULTED IN PRICES BEING CONTINUOUSLY SET TOO LOW. THE RESULTING REVENUE LAG PREVENTS COVERING EVEN CASH COSTS (CRUDE OIL, MARINE TRANSPORT AND REFINERY OPERATING EXPENSES). THIS HAS LED TO A SERIOUS DEBT BUILD-UP OF OVER \$20 MILLION. FURTHER, THE GOH HAS IN PAST FEW YEARS NOT ALLOWED A CAPITAL FACTOR IN PRICES, THEREBY PREVENTING TEXACO FROM EITHER SERVICING OUTSTANDING \$10 LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TEGUCI 00398 252109Z

MILLION OF CONSTRUCTION LOAN OR EARNING A RETURN ON CAPITAL INVESTED.

3. AN ADDITIONAL PROBLEM HAS EMERGED RECENTLY TO AGGRAVATE GOH-TEXACO RELATIONS. ACCORDING TO MACDONALD, THE GOH SET A ONE-HALF CENT MARK-UP AND AN INTERNAL TRANSPORT CHARGE OF THREE-EIGHTHS OF A CENT FOR FUEL OIL. TEXACO LOSES ONE CENT A GALLON ON DELIVERIES IT MAKES OF THIS FUEL, BUT HAS BEEN UNABLE TO SECURE AN INCREASE. TO CUT ITS LOSSES, TEXACO RECENTLY LIMITED ITS DELIVERIES OF FUEL OIL TO HONDURAS CEMENT COMPANY TO THE 30 PERCENT IT IS ALLOWED TO HAUL IN ITS TRUCKS. BY LAW, INDEPENDENT TRUCKERS ARE RESERVED 70 PERCENT SHARE OF HAULING OIL PRODUCTS IN COUNTRY. INDEPENDENTS HAVE REFUSED TO HAUL THEIR SHARE AT GOH-FIXED RATE, AND CEMENT PLANT FACES SHUT-DOWN. MACDONALD RELATED THAT MINECON DIAZ INSISTED THAT AS A PUBLIC UTILITY TEXACO WAS OBLIGED TO DELIVER ALL OF PLANT'S NEEDS. MACDONALD REMINDED HIM OF THE 30 PERCENT LIMIT ON ITS DELIVERIES AND POINTED OUT THAT IMPLICIT IN PUBLIC UTILITY ARGUMENT ARE OBLIGATIONS OF GOH AS WELL AS TEXACO AND THAT IN VIEW OF GOH

RIGIDITY ON PRICING, THIS ARGUMENT WAS LOSSING RELEVANCE. MACDONALD SAID DIAZ THREATENED TO ACT AGAINST TEXACO UNLESS IT UNDERTOOK DELIVERY OF ALL OF CEMENT PLANT'S REQUIRMENTS. MACDONALD ADVISED EMBOFF THAT THE INDEPENDENT TRUCKERS ARE PRESSING, WITH GOOD CHANCE OF SUCCESS, FOR INCREASE IN HAULAGE RATE, WHICH COULD RESOLVE THIS IMPASSE.

COMMENT: IT WOULD APPEAR THAT TEXACO MUST SOON UNDERTAKE MORE EFFECTIVE STEPS IN DEALING WITH THE GOH TO SECURE REMUNERATIVE PRICES FOR ITS REFINERY'S PRODUCTS. THE GOH HAS BEEN RELUCTANT TO GRANT SUBSTANTIAL INTERNAL PRICE INCREASES IN RECENT YEARS DUE TO SERIOUS ECONOMIC SETBACKS AND A SENSITIVE DOMESTIC POLITICAL SITUATION. HAVING LOST CONTROL OF UPSTREAM SUPPLY AND PRICING, TEXACO AND OTHER MAJOR OIL COMPANIES ARE LIKELY TO BE EXPERIENCING SIMLAR PROBLEMS IN MANY LDC'S AS THE LATTER ATTEMPT TO MINIMIZE THE IMPACTS OF OPEC OIL PRICE INCREASES. IN SUCH A CAPITAL-INTENSIVE INDUSTRY, TEXACO CAN ILL-AFFORD TO CONTINUE TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 TEGUCI 00398 252109Z

ACCUMULATE CURRENT OPERATING LOSSES AND TO FOREGO LOAN AMORTIZATION. FURTHER, IT IS ENTITLED TO A RETURN ON ITS SUBSTANTIAL INVESTMENT, BUT THIS HAS NOT BEEN POSSIBLE IN THE FEW YEARS THE REFINERY HAS BEEN IN OPERATION. (IT WAS CONSTRUCTED IN LATE 1960'S.) AS TEXACO ATTEMPTS TO CUT ITS LOSSES IT ENCOUNTERS OTHER PROBLEMS WHICH ERODE ITS GOOD WILL IN HONDURAS. HAVING TO TAKE HARD BARGAINING POSITIONS WITH THE GOH, EMPLOYEES, TRUCKERS AND CLIENTS, ITS HOST-COUNTRY RELATIONS ARE, THEREFORE, AT A LOW LEVEL. TEXACO WILL SOON BE SUBMITTING TO THE GOH A REQUEST FOR PRICE INCREASES REQUIRED BY THE LATEST OPEC INCREASES. IF IN THE COURSE OF THE SUBSEQUENT NEGOTIATIONS IT APPEARS TEXACO WILL AGAIN BE DENIED REMUNERATIVE PRICES, THE EMBASSY PROPOSES TO APPROACH THE GOH AT A HIGH LEVEL TO VERBALLY EXPRESS ITS INTEREST IN AN EQUITABLE RESOLUTION OF THE PROBLEM. MACDONALD HAS IN THE PAST ASKED EMBOFFS TO INFORMALLY DISCUSS THE SITUATION WITH KEY MINISTERS, BUT HAD NOT PREVIOUSLY REQUESTED FORMAL INTERVENTION. HE NOW WANTS TO, IN HIS WORDS, LOWER THE BOOM. PROSPECTS FOR A FAVORABLE RESULT FROM INFORMAL EMBASSY APPROACHES ARE GOOD, IN LIGHT OF GREATLY IMPROVED ECONOMIC CONDITIONS IN HONDURAS.

ACTION REQUESTED:

THE DEPARTMENT'S ADVICE IS REQUESTED ON THE APPARENT ASPECTS OF CREEPING EXPROPRIATION IN THIS CASE. IF THE CASE CAN BE SO CHARACTERIZED, WHAT ADDITIONAL STEPS CAN THE EMBASSY TAKE TO PROTECT TEXACO'S LEGITIMATE INTEREST -- ESPECIALLY IN LIGHT OF ITS OPEC GUARANTEES?

BECKER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTS, REFINERIES, PRICES
Control Number: n/a
Copy: SINGLE
Sent Date: 25-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TEGUCI00398
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770027-0522
Format: TEL
From: TEGUCIGALPA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770119/aaaaaqhl.tel
Line Count: 167
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b83f08d1-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 TEGUCIGALPA 3456, 76 STATE 100062
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3502978
Secure: OPEN
Status: NATIVE
Subject: TEXACO REFINERY LOSSES MOUNT AS COST-PRICE SQUEEZE CONTINUES
TAGS: ENRG, EINV, HO, TEXACO
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/b83f08d1-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009